

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE POWELL COUNTY SHERIFF

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Powell County Sheriff's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$10,500 from the prior year, resulting in excess fees of \$13,128 as of December 31, 2009. Revenues increased by \$20,758 from the prior year and expenditures increased by \$10,258.

Debt Obligations:

Capital lease principal agreements totaled \$51,244 as of December 31, 2009.

Report Comments:

- 2009-01 The Sheriff Should Only Expend Funds For Allowable Purposes
- 2009-02 The Sheriff Overspent His Maximum Salary Limitation Set By The Fiscal Court
- 2009-03 The Sheriff Should Present His Annual Settlement To The Fiscal Court
- 2009-04 The Sheriff's Office Should Review Payroll Prepared By Fiscal Court
- 2009-05 The Sheriff Should Pay \$5,872 Of Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court
- 2009-06 The Sheriff's Office Lacks Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darren Farmer, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Powell County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2010 on our consideration of the Powell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Darren Farmer, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Sheriff Should Only Expend Funds For Allowable Purposes
- 2009-02 The Sheriff Overspent His Maximum Salary Limitation Set By The Fiscal Court
- 2009-03 The Sheriff Should Present His Annual Settlement To The Fiscal Court
- 2009-04 The Sheriff's Office Should Review Payroll Prepared By Fiscal Court
- 2009-05 The Sheriff Should Pay \$5,872 Of Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court
- 2009-06 The Sheriff's Office Lacks Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Powell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 23, 2010

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

Federal Grants	\$	4,900	
State - Kentucky Law Enforcement Foundation Program Fund			12,731
State Fees For Services:			
Finance and Administration Cabinet	\$	54,076	
Sheriff Security Service		10,984	65,060
Circuit Court Clerk:			
Fines and Fees Collected			9,392
Fiscal Court			49,050
County Clerk - Delinquent Taxes			1,156
Commission On Taxes Collected			107,770
Fees Collected For Services:			
Auto Inspections		2,715	
Accident and Police Reports		708	
Executions		1,090	
Serving Papers		36,075	
Carrying Concealed Deadly Weapon Permits		2,855	43,443
Other:			
Advertising Fees		1,110	
Add-on Fees		29,983	
Telecommunications Tax		765	
IVD Cases		701	
Transporting Prisoners		11,609	
Insurance Reimbursements		4,343	
Charges for Tax Bills Compilation		2,106	
Drug Awareness Program		500	
Miscellaneous		23	
School Resource Officer Receipts		41,362	92,502

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Revenues (Continued)

Interest Earned	\$	1,120
Borrowed Money:		
State Advancement		<u>18,596</u>
Total Revenues		405,720

Expenditures

Operating Expenditures:

 Personnel Services-

Deputies' Salaries	\$	136,447
School Resource Officers Salaries		44,075
KLEFPF Salaries		12,736
Overtime Gross Salaries		17,246

 Contracted Services-

Advertising		2,027
Vehicle Maintenance and Repairs		13,299

 Materials and Supplies-

Office Materials and Supplies		5,644
Uniforms		5,262

 Auto Expense-

Gasoline		28,367
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 Other Charges-

Dues		409
Postage		1,251
Insurance		78
Bond		1,269
Carrying Concealed Deadly Weapon Permits		590
Transports		2,793
Training		526
Fiscal Court Fees Payable		5,872
Equipment		2,700
Refunds		55
Drug Awareness Expenditures		500
School Resource Expenditures		657
Miscellaneous		<u>4,390</u>
	\$	286,193

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
DANNY ROGERS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

Expenditures (Continued)

Debt Service:

State Advancement	\$	18,596	
Leases		<u>15,848</u>	<u>\$ 34,444</u>

Total Expenditures			<u>\$ 320,637</u>
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Disallowed Expenditures:

Late Payments		(254)	
Donations to Kentucky Boys and Girls Ranch		(50)	
Advertising for Basketball Sponsorship		<u>(65)</u>	<u>(369)</u>

Total Allowable Expenditures			320,268
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Net Revenues			85,452
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Less: Statutory Maximum			<u>72,324</u>
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Excess Fees Due County for 2009			<u><u>\$ 13,128</u></u>
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POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Powell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Powell County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 4. Leases

The Sheriff's office was committed to the following lease agreements as of December 31, 2009:

Item Purchased	Payment	Term of Agreement	Ending Date	Principal Balance December 31, 2009
Xerox Copier	98	48	2/26/2011	\$ 1,372
Chevrolet Impala	360	48	4/15/2011	6,493
3 - Dodge Chargers	1,999	40	12/13/2010	22,878
Dodge Nitro	795	36	12/31/2012	15,655
Dodge Durango	457	24	11/10/2010	4,846
				<u>\$ 51,244</u>

Note 5. School Resource Officer Fund

The Powell County Sheriff maintained a separate bank account for monies received from the Powell County Board of Education for school resource officers. Upon the expiration of the COPS-In-School grant, the Powell County Board of Education entered into an agreement with the Powell County Sheriff's Department for the school resource officers to remain in the county schools. The beginning balance was \$3,332. Receipts from the Powell County Board of Education for the year were \$33,000, \$10,959 transfers and deposit errors from the 2009 fee account, interest earned was \$39, and expenditures totaled \$46,939 used for school officer salary and transfers back to the 2009 fee account. The balance as of December 31, 2009 was \$391.

Note 6. Crime Stoppers In Schools

Crime Stoppers in Schools is a school-supported program to decrease crime and increase pride within the school and local community by rewarding valid sharing of information regarding criminal activity. The Powell County Sheriff's Department, Powell County Schools, and Whitaker Bank of Powell County sponsor the program. The beginning balance was \$195. There were no receipts and expenditures for calendar year 2009. The balance as of December 31, 2009 was \$195.

Note 7. United States Forestry Grant

The Powell County Sheriff received \$4,900 from the United States Forestry for patrolling. This was a reimbursement for payroll of officers patrolling the Daniel Boone National Forest.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 8. Drug Awareness Program

The Powell County Sheriff's Office received \$500 from Kentucky River Footfills Development Council, Inc. to purchase supplies for a drug awareness program presented by the Sheriff's office at the school.

Note 9. Special Account

The Powell County Sheriff's Office has a special bank account that was opened to account for a prior year donation. The prior year balance was \$46. The Sheriff used this account to account for a Department of Justice grant of \$28,000 that was used to purchase mobile units for the deputy cruisers, a \$4,000 court-ordered Sheriff sale of property that was then paid as court ordered, \$834 of forfeiture money, \$1,238 of donations for calendar sales, \$60 of interest earned, and the remaining \$774 was transferred from the 2009 fee account. Expenditures of \$34,832 were noted and appear to have been for allowable expenditures. The balance as of December 31, 2009 was \$120.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darren Farmer, Powell County Judge/Executive
The Honorable Danny Rogers, Powell County Sheriff
Members of the Powell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Powell County Sheriff for the year ended December 31, 2009, and have issued our report thereon dated June 23, 2010. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2009-06 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell County Sheriff's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, 2009-04, and 2009-05.

The Powell County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Powell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 23, 2010

COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

STATE LAWS AND REGULATIONS:

2009-01 The Sheriff Should Only Expend Funds For Allowable Purposes

During our review of expenditures, we noted the Sheriff expended \$369 for disallowed items. These items consisted of the following:

- Late fees of \$254 were paid due to payments not made in timely manner
- Advertising fee of \$65 for a basketball sponsorship is not an allowable expenditure from the fee account
- \$50 donation to the Kentucky Boys and Girls is not allowable expenditures from the fee account

Technical Audit Bulletin 93-001 (TAB 93-001) section three (3), identifies the expenditures above as items to be disallowed. We recommend that the Sheriff reimburse the 2009 Fee account \$369 from his personal funds for these disallowed expenditures. Furthermore, we recommend that the Sheriff only expend funds for allowable purposes.

Sheriff's Response: Ok.

2009-02 The Sheriff Overspent His Maximum Salary Limitation Set By The Fiscal Court

During our audit, it was noted that the Powell County Sheriff overspent his maximum salary limitation as approved by the Fiscal Court by \$49,290. Per KRS 64.530(3), the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant. We recommend that the Powell County Sheriff's Office comply with KRS 64.530 and not overspend the maximum salary limitation as set by the Fiscal Court. If payroll exceeds the salary limitation, the Sheriff should request a budget amendment from the Fiscal Court. The maximum salary limit should include all salaries paid (KLEFPF, Full-Time, Part-Time, School Resource Fund, etc.) as to limit the possibility of any confusion.

Sheriff's Response: Ok.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

STATE LAWS AND REGULATIONS (Continued):

2009-03 The Sheriff Should Present His Annual Settlement To The Fiscal Court

The Sheriff did not present his annual settlement to the fiscal court. KRS 134.310 states the Sheriff shall provide to the Fiscal court each year a complete statement for the preceding year of all funds received by his office for services rendered, and of all expenditures, including his salary, compensation of deputies and assistants, and reasonable expenses. At the time of his settlement, the Sheriff shall pay to the fiscal court any excess fees. We recommend the Sheriff comply with KRS 134.310 and present his annual settlement and pay excess fees to the fiscal court.

Sheriff's Response: Ok.

2009-04 The Sheriff's Office Should Review Payroll Prepared By Fiscal Court

The Sheriff's payroll is prepared by the fiscal court. However, the Sheriff does not review the payroll ledger after it is prepared. During payroll testing, we identified the following items:

- Employee sick and vacation leave balances were not documented in writing.
- Retirement deductions for one (1) employee were not withheld from his wages for KLEFPF.

Had the Sheriff reviewed the payroll, he could have ensured retirement was withheld properly. We recommend the Sheriff maintain sick and vacation time balances for each employee and review payroll to determine retirement contributions are properly withheld.

Sheriff's Response: Ok.

2009-05 The Sheriff Should Pay \$5,872 Of Fiscal Court Fees Collected For The Service Of Subpoenas And Civil Summons To The Fiscal Court

As authorized under Judicial Branch Budget Bill (HB 577), and approved by the Powell County Fiscal Court in Ordinance 00-06-29A, an additional fee of \$10 shall be charged for the service of subpoena and for the service of a civil summons. During the course of our audit, we noted that the Sheriff has not been paying the additional fees collected to the Fiscal Court. We compiled civil paper fees and subpoena fees collected during the year and calculated \$5,872 as the portion of collections that would constitute fiscal court fees. We recommend that the Sheriff pay to the Fiscal Court the \$5,872 collected for serving papers. Furthermore, the Sheriff should pay the fiscal court fees to them monthly as required by ordinance.

Sheriff's Response: Ok.

POWELL COUNTY
DANNY ROGERS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2009
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

2009-06 The Sheriff's Office Lacks Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties for receipts and disbursements. The bookkeeper collects receipts, records transactions, issues checks, and posts amounts to the receipts and disbursements ledgers. Good internal controls dictate the same employee should not handle and record receipts and disbursements. The Sheriff should either segregate these duties or perform the following compensating controls to help offset this weakness. If the Sheriff performs these compensating controls, he should initial the supporting documentation reviewed.

- Agree daily deposits to the daily checkout sheet and the receipts ledger.
- Agree quarterly financial reports to the receipts and disbursements ledger.
- Review monthly bank reconciliations.
- Compare the bank reconciliation to the balance in the checkbook.
- Compare invoices to payments.
- Perform surprise cash counts of receipts.

Sheriff's Response: Ok.

